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THE DEVELOPMENT OF KYRGYZSTAN: INTEGRATION PROCESSES AND ESTABLISHMENT OF CUSTOMS UNIONS

ABSTRACT

The author considers the ongoing processes of globalization and division of labor, presented from the perspective of Kyrgyzstan's economic development. Firstly, he introduced the theoretical background of his study, explaining the significance of economic growth, social stability, and the sustainability of the national economy. Then, he identified the prospects of globalization and integration. In the Kyrgyzstan case study, the author presents the structure of Kyrgyz foreign trade and international, economic cooperation, emphasizing the roles of Russian Federation, the People's Republic of China, and Kazakhstan. It enabled him to inquire about the possible advantages and disadvantages of the future integration of Kyrgyzstan with specialized structures of the Eurasian Economic Community: EurAsEC Customs Union, and the Common Economic Space, which were recognized by the Kyrgyz Government in December 2010, as the main aim of foreign and trade policies. He also compared them to Kyrgyz national interests, paying special attention to bilateral trade balances with Russian, Kazakhstan, and Belarus,

STRESZCZENIE

Autor, rozważając postępujące procesy globalizacji i podziału pracy, przedstawił perspektywę rozwoju gospodarczego Kirgistanu. Najpierw, zaprezentował teoretyczne podstawy swego studium, tłumacząc znaczenie wzrostu gospodarczego, stabilności społecznej i zrównoważenia gospodarki narodowej. Następnie ukazuje szanse wynikające z globalizacji i integracji. W studium przypadku Kirgistanu, Autor ukazał strukturę kirgiskiego handlu i międzynarodowej współpracy gospodarczej, uwypuklając rolę Federacji Rosyjskiej, Chińskiej Republiki Ludowej i Kazachstanu. Umożliwiło mu to prześledzenie możliwych korzyści i strat, wynikających z przyszłej integracji Kirgistanu ze strukturami Euroazjatyckiej Wspólnoty Gospodarczej: Unii Celnej EurAsEC i Wspólnej Przestrzeni Ekonomicznej, które uznane zostały przez kirgiski rząd, w grudniu 2010, za główny cel polityki zagranicznej i handlowej. Następnie, zestawiał je także z narodowym interesem Kirgistanu, szczególną uwagę zwracając na dwustronny bilans handlowy z Rosją, Kazachstanem i Białorusią i znaczenie podatków i opłat celnych jako źródła docho-

and to the importance of customs taxes and duties as the state's revenue sources. The author ends with by concluding that the accession to the Union may seriously affect the Kyrgyz economy.

Key words

Kyrgyzstan; Eurasian Economic Community; EurAsEC Customs Union; trade policy; integration processes

dów państwa. Autor zakończył konkluzją, że przystąpienie do unii może wywołać poważne konsekwencje dla kirgiskiej gospodarki.

Słowa kluczowe

Kirgistan; Euroazjatycka Wspólnota Gospodarcza; Unia Celna EurAsEC; polityka handlowa; procesy integracyjne

A major problem of the increasingly interdependent world is the interaction of the multilevel economic structures. They are characterized not only by the degree of development, but also the degree of involvement in the international division of labor and the global economy. Nowadays, the need of national economics' inclusion may be recognized, somehow, as an universal, global pattern.

In every transition economy, the main question of macro-economic wellbeing is economic growth (which is also commonly recognized as an essential factor of economic development). Economic growth, as a composed phenomenon, has many quantitative and qualitative indicators. They are characterized by both the economic results, and the social results.

There is a consistent and proportional interaction of economic, social, and political subsystems of society, as well as the environment, in the conception of integration. The sustainability of the economic system is determined not only by production and economic factors (investment, market prices, innovation, etc.), but also by social system indicators (the uniformity of income distribution, the proportion of the middle class in the social structure, the level of employment, etc.) and society as a whole (including the political sphere).

The stability of the social system influences important parameters of economic system, such as household income, the level of poverty, the development of the nongovernmental sector, and other indicators, determined by the Real Sector's development.

In recent years, the ongoing processes of globalization have caused a significant change in defining and establishing the economic and social stability of an individual state's economy and regional economies. The globalization affects the overall dynamics and stability of global economic development, internal and

external balance of national economies, and the movement of business cycles. These kinds of researches were not undertaken by the science.¹

Present economic circumstances indicate that the vector of global development, despite the adoption of the concept of sustainable development by a majority of countries, continues to focus on globalization. They also influence the states' aspiration after integration.

The main factors that determine the process of integration are:

- The globalization of economic life;
- Deepening the international division of labor;
- The nature of the worldwide scientific and technological revolution;
- Increasing and deepening openness of national economies.

All these factors are interdependent. The most significant factor stimulating the integration process is the openness of national economies, which characterized by:

- A deep involvement of the national economic system in global economic relations;
- A reduction or even complete elimination of all restrictions on the cross-border movement of goods, capital, and labor;
- The convertibility of national currencies.

The most productive integration processes occur between countries that are at similar levels of economic development and that have homogeneous economic systems, as well as the proximity of the integrating countries and that share a common border. The commonality of economic interests and issues, which may cause that states together work together more effective than separately, plays an important role.²

Considering the development of Kyrgyzstan's participation in ongoing integration processes, it is clear to that it is affected by the policies of neighboring powers, namely Russia and China. The development of economic cooperation between Kyrgyzstan and Russia, towards a consistent and gradual integration of their economies, corresponds to the vital interests of both countries: for Kyrgyzstan – economically, for Russia – from a political point of view. Close collaboration will provide many opportunities to both parties to address economic and social problems. While Chinese influence is not as strong as

¹ W. Oykena, *Basic Principles of Economic Policy*, "Progress" 1995.

² L.B. Parfenov, *Theoretical Aspects of Economic Integration in the Globalization of World Economic Relations*, "Security Eurasia" 2001, No. 2.

Russia's, it is still growing in a similar fashion to the growth of its influence in the global economic system.

Economic transition is not based on a single path of transformation. Considering the experiences of different countries, it is noticeable that there is no one-size-fits-all solution that can be implemented throughout all of the world's regions for promoting fair and sustainable development. So, Kyrgyzstan, like other states, is forced to establish its own agenda, which may be used to solve similar Central Asian or global issues. These conditions caused Kyrgyzstan to not only accede to a regional economic bloc, but also become an essential member of the regional community.

As well, it is necessary to identify the prospects of the national economy enabled by ongoing processes of the globalization. These are:

- A reduction of internal and external national debt;
- Attracting foreign investments;
- A production of high quality and competitive products, and innovative technology;
- A regulation of the labor market and an effective structure of employment;
- An improvement of government institutions, especially to eliminate corruption, to broaden access to information, and transparency in governance;
- Increasing international mobility of well-educated human resources;
- An integration of the national scientific and technological capacity in the global science and its involvement in the sustainable and social development;
- Market development services (high-quality education, tourism and information services);
- Extract the maximum benefit from entering into various international organizations.

Previous prospects can be also noticed in legal resolutions, established within the EurAsEC Customs Union (CU) and the Common Economic Space (CES).³ The most important are following ones:

- The free movement of goods (without customs controls, monetary costs, and lost time);
- The development of cross-border trade, which was previously limited by requirements of customs control;

³ Launched as stages of integration within the Eurasian Economic Community.

- The standardization and mutual recognition of sanitary and phytosanitary controls;
- The free movement of services;
- An implementation of energy trade, without export and import duties;
- The establishment of a free migration policy, free of any quota restrictions. This policy allow migrants to enjoy all of the social rights that citizens of the receiving state have;
- The free movement of capital; it is particularly important if one notices the significance of bilateral trade of kyrgyzstan with the cu member states.⁴ new prospects for the development will be possible for Kyrgyzstan thanks to accession to the CU and the CES, after:
 - The abolition of customs duties and controls at internal borders of the Customs Union. The freedom of movement leads to a reduction of foreign trade costs, and the establishment of the conditions necessary for wholesale movement;
 - The lack of export restrictions in the CU will enable the Kyrgyzstan to freely import goods, which are required by the Kyrgyz national market, such as crude oil, other energy resources, and petrochemical goods;
 - Creating favorable conditions for development of agricultural production through the introduction of a uniform procedure of veterinary and phytosanitary control, and, therefore, export opportunities and the stability of prices of agricultural commodities in the domestic market of the republic;
 - The resolution of issues related to the implementation of labor migration (mostly Kyrgyz citizens migrating to the countries of the Customs Union states);
 - The implementation of legal regulations of energy transmission, transportation, and the development of the CU's pipeline's infrastructure.

Considering the importance of regional economic integration, Kyrgyzstan adopted a number of measures; e.g. the Program of the Government of the

⁴ Belarus, Kazakhstan, and the Russian Federation account for approximately 45% of the Kyrgyz trade; export – more than 40% and import – more than 47%. The most important trade partner is Russia with about 27% of the total trade, while Kazakhstan – less than 17%, and Belarus – a little more than 1%.

Kyrgyz Republic, enacted by the *Jogorku Kenesh* (the Supreme Council) of Kyrgyzstan on 17 December 2010⁵, to protect national interests. It also includes the decision to join the EurAsEC Customs Union and the CES. The Kyrgyz government decided to:

- To establish the Interagency Commission under the Government of Kyrgyz Republic in the negotiations on Accession of the Republic of the Customs Union and Common Economic Space (the Interagency Commission). It was also established with relation to the Interagency Commission that:
 - The Interagency Commission is the authorized body of the Government of Kyrgyz Republic and is responsible for negotiations with the members of the Customs Union and the Secretariat of the Customs Union Commission on the accession of the Kyrgyz Republic. The Interagency Commission is also responsible for coordinating the activities of ministries, state committees, administrative departments, state administrations, and local authorities on the subject;
 - Decisions taken within the competence of the Interagency Commission for coordinating the ministries, state committees, administrative departments, state administrations, and local authorities on the subject are binding on each.

It should be noted that the integration processes with the countries of the Eurasian Economic Community (EEC) are a priority for Kyrgyz Republic. This is evidenced by the development of trade with these countries, of which Russia and Kazakhstan occupy the positions of Kyrgyzstan's leading trading partners.⁶ This is noticeable when one sees the balance and directions of Kyrgyz trade, which is presented in Table 1.

Currently, the immediate integration with the Customs Union is the most important issue of Kyrgyz governmental policy, which also is recognized as a top priority by local entrepreneurs. Even if Kyrgyzstan is for now not a member of the Union, its economic situation, policies, and strategies, will strongly influence the development of national economy and perspectives of foreign trade. And,

⁵ No. 26-V.

⁶ In 2010, the balance of trade with the Customs Union member states reached 2,238 million USD, and increased by 8,4%. Exports reached 715 million USD, and increased by 8,4%; while imports reached 1,523 million USD, and increased by a little more than 1%. As it was emphasized before, the CU's share accounts for approximately 45% of Kyrgyzstan's foreign trade, including 27% with Russian, 17% with Kazakhstan, and 1% with Belarus.

remaining out the structure is, for Kyrgyzstan, disadvantageous and detrimental. So, the state's aim is to join the path of integration with regional partners.

Table 1. Composition of Kyrgyz Balance of Trade and the share of the Customs Union's member-states.

KYRGYZ EXPORTS			KYRGYZ IMPORTS		
Exported good	Direction	% of total export of good	Imported good	Direction	% of total import of good
Garments	Russia	98%	Oil products	Russia	76%
Fruits and vegetables		28%	Ferrous metals and their products		42%
Raw cotton,		72%	Woods		70%
Electric machinery, apparatus, and appliances		25%	Electric machinery, and industry equipments		20%
Extracted Tungsten		23%	Rubber, and its products		26%
Electricity	Kazakhstan	100%	Organic, and inorganic chemicals	Kazakhstan	34%
Dairy products		98%	Wheat (and wheat flour)		98% (75%)
Meat		89%	Oil products		25%
Live animals		93%	Inorganic chemicals		56%
Radiators	Belarus	46%	Coal	Belarus	100%
Cotton fiber		3%	Minerals (mostly silica sand, asbestos, and gypsum)		73%
			Sugar		65%
			Rubber		5%
			Machinery and equipments		2%

However, the political transformation of the state influenced the state of foreign trade and business activity in Kyrgyzstan.⁷ This development once again stressed the importance of our relationship with regional partners, both in terms of exports and imports, especially critical for the country's commodities such as oil, grain and other foodstuffs. The ongoing transition affected the Government of Kyrgyzstan, causing it to emphasize the importance of immediate integration with the Customs Union, which corresponds with the country's national interests, and to refer to previous international commitments.

The accession of Kyrgyzstan to the Custom Union will be a significant step towards deepening the integration with Russia and other CU states (and economies). But, this will significantly reduce the trade relations with non-Central Asian countries. Since government revenues in Kyrgyzstan are essentially dependent on import duties and VAT on imports, reduced imports from foreign countries will surely lead to a significant reduction in government revenue.⁸

This is not the only danger of accession to the CU. As the economy of Kyrgyzstan is disproportionately smaller than that of the Russian economy or any of the states of the CU, Kyrgyzstan should expect that the policy, structure, and activities of the CU would focus on the benefits for the larger members. As a result, Kyrgyzstan may forfeit its ability to define its own trade policy.

The introduction of the CET CU will be an important development. Approximately 92% of the CET is based on Russian tariff rates, which seek to protect Russian producers from imports and encourage consumers in foreign markets to purchase Russian-made products. This tariff is designed for the benefit of Russia, not Kyrgyzstan.

In recent years, Kyrgyzstan has been dependent on the re-export of Chinese goods, sold to Russia and Kazakhstan, and to a lesser degree to Uzbekistan and Tajikistan, on the preferential terms and conditions of "the simplified procedure". Obviously, even if Kyrgyzstan does not enter the Customs Union, the strengthening measures of the CU on Kirghiz-Kazakh border will significantly reduce this type of trade. The main difficulty is finding ways to adapt to this situation. One possibility is to encourage the development of two major sectors – agriculture and textiles. The development of the textile industry depends on the use of low tariff rates fabric imports.

⁷ The trade in 2010 decreased by 7,1%.

⁸ Nonetheless, the average import tariff rate on imports will rise nearly two-fold.

If Kyrgyzstan does not enter the CU, the existing trade with Uzbekistan and Tajikistan will probably not be negatively affected, at least, in the short term. However, the introduction of the Common External Tariff (CET) of the CU leads to increased consumer prices. The price of goods imported from the Union will not change, but the prices of goods from other countries will increase significantly. Cars from foreign countries will become much more expensive; so much so that car imports from Russia would be in most cases the most affordable option.

Kyrgyzstan cannot immediately integrate with the Customs Union. But, the decision to join it is also a choice between the CU and the WTO. As no state has ever exited the WTO, this choice will seriously influence the Kyrgyz economy. There are few possible options, including the entry of all CU members into WTO on general terms, but one danger still remains: a review of Kyrgyz commitments, which may result in in compliance with the Custom Union's policy.